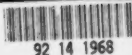


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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

F 11/2
92-2256

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 1992

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-10777

CPB INC.

(Exact name of registrant as specified in its charter)

Hawaii

(State or other jurisdiction of incorporation or organization)

99-0212507

(I. R. S. Employer
Identification No.)

220 South King Street, Honolulu, Hawaii
(Address of principal executive offices)

96813
(Zip Code)

(808) 544-0500

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, No Par Value, \$1.25 Stated Value:

Outstanding at April 30, 1992 - 5,190,722 shares

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below are filed as a part hereof.

	<u>Page</u>
Consolidated Balance Sheets – March 31, 1992 and December 31, 1991	F-1
Consolidated Statements of Income – Three months ended March 31, 1992 and 1991	F-2
Consolidated Statements of Cash Flows – Three months ended March 31, 1992 and 1991	F-3
Notes to Consolidated Financial Statements	F-4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

CPB Inc. (the "Company") posted first quarter 1992 net income of \$3.495 million, increasing by 11.9% over the \$3.124 million earned in the first quarter of 1991. The Company's earnings growth was primarily due to the decrease in interest expense. As of March 31, 1992, total assets of \$1,194.9 million increased by \$60.3 million or 5.3%, total deposits of \$1,033.2 million increased by \$42.3 million or 4.3%, and net loans of \$849.9 million increased by \$28.1 million or 3.4% over year-end 1991.

The following table sets forth return on average assets, return on average stockholders' equity and earnings per share for the periods indicated.

	<u>Three Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
Annualized return on average assets	<u>1.23%</u>	<u>1.21%</u>
Annualized return on average stockholders' equity	<u>15.37%</u>	<u>15.54%</u>
Earnings per share	<u>\$0.67</u>	<u>\$0.62</u>

Annualized return on average assets for the first quarter of 1992 increased due to the growth in net income over the same quarter in 1991. Annualized return on average stockholders' equity decreased from the comparable period in 1991 due to the Company's strengthening capital position.

Results of Operations

Net Interest Income

The principal component of the Company's income is net interest income, which is the difference between interest and fees on interest earning assets and interest expense on deposits and borrowed funds.

A comparison of net interest income for the three months ended March 31, 1992 and 1991 is set forth below on a taxable equivalent basis using an assumed income tax rate of 34%. Net interest income, when expressed as a percentage of average interest earning assets, is referred to as "net interest margin."

Three Months Ended March 31,

	<u>1992</u>	<u>1991</u>
	(Dollars in thousands)	
Interest income	<u>\$24,244</u>	<u>\$24,573</u>
Interest expense	<u>10,409</u>	<u>11,823</u>
Net interest income	<u>\$13,835</u>	<u>\$12,750</u>
Net interest margin	<u>5.38%</u>	<u>5.41%</u>

Interest income decreased by \$329,000 or 1.3% in the first quarter of 1992 compared with the first quarter of 1991. While average interest earning assets of \$1,029.0 million increased by \$86.4 million or 9.2%, the yield on those assets decreased to 9.42% from 10.43%, mainly due to the decline in the general level of interest rates over the past year. However, the decrease in the average yield was mitigated by the higher proportion of higher-yielding loans to total interest earning assets of 80.9% from 75.7% at March 31, 1992 and 1991, respectively.

Interest expense for the first quarter of 1992 also decreased from the prior year quarter by \$1.4 million or 12.0%. Average interest-bearing liabilities of \$881.9 million increased by \$80.0 million or 10.0% while the effective rate decreased to 4.72% from 5.90% for the first quarter of 1992 compared with the same quarter in 1991. As a result, net interest income increased by \$1.1 million, or 8.5% for the quarter. The decline in net interest margin to 5.38% for the first quarter of 1992 compared to 5.41% for the first quarter of 1991 was due to the narrowing of the spread between rates charged on loans and rates paid on deposits.

Provision for Loan Losses

The provision for loan losses is determined by regular evaluations of the loan portfolio by Management. The current level of the allowance for loan losses is based on Management's assessment of the inherent risks associated with loan growth and the slowdown in certain sectors of the local and national economies. Net loan charge-offs of \$207,000 were 0.10% as an annualized percentage of average total loans in the first quarter of 1992 compared with net charge-offs of \$57,000 or 0.03% of average total loans in the 1991 quarter.

Provision for loan losses, loan charge-offs, recoveries, net charge-offs and net charge-offs as an annualized percentage to average loans are set forth below for the periods indicated.

Three Months Ended March 31,

	<u>1992</u>	<u>1991</u>
	(Dollars in thousands)	
Provision for loan losses	<u>\$600</u>	<u>\$600</u>
Loan charge-offs	<u>\$240</u>	<u>\$103</u>
Recoveries	<u>33</u>	<u>46</u>
Net charge-offs	<u>\$207</u>	<u>\$57</u>
Annualized % to average loans	<u>0.10%</u>	<u>0.03%</u>

During the first quarter of 1992, consumer loans comprised approximately 50% of loans charged-off, with the balance of loan charge-offs representing commercial loans to two borrowers. The allowance for losses expressed as a percentage of total loans was 1.65%, 1.66% and 1.66% at March 31, 1992, December 31, 1991, and March 31, 1991, respectively.

Nonperforming Assets

The following table sets forth nonperforming assets (nonaccrual loans) and accruing loans which were delinquent for 90 days or more. There were no restructured loans or other real estate at the dates indicated.

	March 31, 1992	December 31, 1991	March 31, 1991
	(Dollars in thousands)		
Total nonperforming assets	\$3,118	\$2,184	\$611
Loans delinquent for 90 days or more	<u>7,424</u>	<u>4,113</u>	<u>2,844</u>
Total nonperforming assets and loans delinquent for 90 days or more	<u>\$10,542</u>	<u>\$6,297</u>	<u>\$3,455</u>
Total nonperforming assets as a percentage of total loans	<u>0.36%</u>	<u>0.26%</u>	<u>0.08%</u>
Total nonperforming assets and loans delinquent for 90 days or more as a percentage of total loans	<u>1.22%</u>	<u>0.75%</u>	<u>0.47%</u>

Nonperforming assets at March 31, 1992 were comprised of several loans which are secured by commercial real estate. Most of the loans delinquent for 90 days or more are secured by real estate and other collateral. The increase in delinquencies over the past year was attributable to the economic slowdown in the State of Hawaii. Management is constantly monitoring loan delinquencies and does not foresee any material losses arising from these loans. A continued decline in the general economic conditions in the State of Hawaii could result in an increase in nonperforming assets, additional loan loss provisions and higher net charge-offs.

Other Operating Income

Total other operating income in the first quarter of 1992 of \$2,267,000 increased by \$200,000 or 9.7% over the first quarter of 1991. Service charges on deposit accounts of \$490,000 increased by \$96,000 or 24.4% due to the increase in fees charged on deposit accounts. In addition, service charges on deposit accounts in the first quarter of 1992 reflects recognition of automated teller machine network service charges, which commenced in the second quarter of 1991. Other service charges and fees of \$1,082,000 increased \$103,000 or 10.5% due primarily to an increase in charge card fees, and other income of \$178,000 decreased by \$90,000 or 33.6% due to a decrease of \$112,000 in gains on sale of loans.

Other Operating Expense

Total other operating expense of \$9,775,000 for the first quarter of 1992 increased by \$657,000 or 7.2% compared with the same period in 1991. Salaries and employee benefits of \$5,179,000 increased by \$349,000 or 7.2% due to an increase in the number of employees and general salary levels over 1991. Other expense of \$2,905,000 increased by \$158,000 or 5.8% due primarily to a \$110,000 increase in FDIC deposit insurance premiums. The FDIC has proposed an increase in deposit insurance premiums which, if adopted, will result in additional insurance expense for 1993.

Income Taxes

The effective tax rate for the first quarter of 1992 and 1991 was 28.00% and 36.93%, respectively. In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." A discussion of the requirements of SFAS No. 109 is included in the 1991 Annual Report to Shareholders.

Financial Condition

Total assets at March 31, 1992 of \$1,194.9 million increased by \$60.3 million or 5.3% from December 31, 1991. Net loans of \$849.9 million increased by \$28.1 million or 3.4%, Federal funds sold of \$31.0 million increased by \$16.0 million or 106.7%, and investment securities of \$167.1 million increased by \$9.8 million or 6.2%. The increase in loans from year-end 1991 occurred mainly in the commercial and industrial and nonresidential secured categories and was funded primarily by borrowings from the Federal Home Loan Bank of Seattle, which increased \$22.4 million to \$46.5 million during the first quarter of 1992.

Total deposits at March 31, 1992 of \$1,033.2 million increased by \$42.3 million or 4.3% from year-end 1991 primarily due to a large deposit received near the end of the quarter. Interest-bearing deposits of \$876.4 million increased by \$49.5 million or 6.0%, while noninterest-bearing deposits decreased by \$7.1 million or 4.4%. Core deposits (noninterest-bearing demand, interest-bearing demand and savings deposits and time deposits under \$100,000) at March 31, 1992 of \$874.1 million increased by \$52.7 million or 6.4% from year-end 1991. The increase in core deposits was largely due to the previously-mentioned quarter-end deposit. In addition, there was a shifting of funds from large deposit accounts into more liquid savings accounts as evidenced by the \$10.4 million or 6.1% decrease in certificates of deposit over \$100,000 to \$159.1 million at March 31, 1992.

Capital Resources

Stockholders' equity of \$92.2 million at March 31, 1992 increased by \$2.5 million or 2.8% from December 31, 1991. When expressed as a percentage of total assets, stockholders' equity was 7.7% and 7.9% at those dates, respectively. The minimum leverage capital ratio as required by the Federal Reserve Board is 3.00%. The tier I and total risk-based capital ratios were 9.39% and 10.66%, respectively, at March 31, 1992 compared with 9.98% and 11.25%, respectively, at December 31, 1991. The transition period Federal Reserve Board risk-based capital ratio requirements are 3.62% and 7.25% for tier I and total capital, respectively. The final risk-based capital ratios to be achieved by December 31, 1992 are 4.0% and 8.00%, respectively. The growth in asset base, which exceeded the rate of growth in capital during the quarter ended March 31, 1992, contributed to the decrease in capital ratios.

On March 16, 1992, the Board of Directors declared an increase in quarterly dividends to \$0.20 per share from \$0.18 in the previous quarter and \$0.16 in the first quarter of 1991. Dividends declared in the first quarter of 1992 totalled \$1,038,000 compared to \$804,000 in the first quarter of 1991.

Liquidity and Effects of Inflation

A discussion of liquidity and effects of inflation is included in the 1991 Annual Report to Shareholders. No significant changes in the Company's liquidity position or policies have occurred during the three months ended March 31, 1992.

PART II - OTHER INFORMATION

Items 1 to 3.

Items 1 to 3 are omitted pursuant to instructions to Part II.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of shareholders (the "Meeting") held on April 28, 1992, shareholders were asked to approve an amendment to the Company's 1986 Stock Option Plan (the "Plan") to increase from 220,000 to 520,000 the number of shares available for issuance upon the exercise of stock options granted pursuant to the Plan (the "Stock Option Proposal"). The Stock Option Proposal was approved by the affirmative vote of 4,113,809 shares of Common Stock, or 79.3% of the shares entitled to vote at the Meeting. 45,055 shares of Common Stock, or 0.9% of the shares entitled to vote at the Meeting, were cast against the Stock Option Proposal.

Item 5.

Item 5 is omitted pursuant to instructions to Part II.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

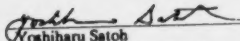
The Company filed no reports on Form 8-K during the first quarter of 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CPB INC.
(Registrant)

Date: May 13, 1992


Yoshiharu Satoh
Chairman of the Board and
Chief Executive Officer

Date: May 13, 1992


Neal Kanda
Vice President and Treasurer
(Principal Financial and Accounting Officer)

CPB INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands, except per share data)

	March 31, 1992	December 31, 1991
Assets		
Cash and due from banks	\$ 58,506	\$ 54,398
Interest-bearing deposits in other banks	34,387	32,082
Federal funds sold	31,000	15,000
Investment securities (market value \$171,405 and \$164,025 at March 31, 1992 and December 31, 1991, respectively)	167,123	157,299
Loans	864,128	835,666
Less allowance for loan losses	14,242	13,849
Net loans	<u>849,886</u>	<u>821,817</u>
Premises and equipment	23,333	23,716
Due from customers on acceptances	674	1,863
Accrued interest receivable	9,580	9,238
Investment in partnership	3,230	2,937
Other assets	17,173	16,239
Total assets	<u>\$ 1,194,892</u>	<u>\$ 1,134,589</u>
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	\$ 156,754	\$ 163,891
Interest-bearing deposits	876,433	826,971
Total deposits	<u>1,033,187</u>	<u>990,862</u>
Federal funds purchased and securities sold under agreements to repurchase	6,299	8,657
Other borrowed funds	47,251	27,367
Bank acceptances outstanding	674	1,863
Other liabilities	13,094	13,934
Subordinated capital note	200	200
Employee stock ownership plan note payable	2,000	2,000
Total liabilities	<u>1,102,705</u>	<u>1,044,883</u>
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares, none issued	-	-
Common stock, no par value, stated value \$1.25 per share.		
Authorized 25,000,000 shares; issued and outstanding 5,190,722 and 5,186,322 shares at March 31, 1992 and December 31, 1991, respectively	6,488	6,483
Surplus	44,524	44,505
Retained earnings	43,175	40,718
	<u>94,187</u>	<u>91,706</u>
Employee stock ownership plan shares purchased with debt	(2,000)	(2,000)
Total stockholders' equity	<u>92,187</u>	<u>89,706</u>
Total liabilities and stockholders' equity	<u>\$ 1,194,892</u>	<u>\$ 1,134,589</u>
Book value per share	<u>\$ 17.76</u>	<u>\$ 17.30</u>

See accompanying notes to consolidated financial statements.

CPB INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	1992	1991
Interest income:		
Interest and fees on loans	\$ 20,408	\$ 19,615
Interest on investment securities:		
Taxable interest	3,066	3,612
Tax-exempt interest	135	226
Dividends	120	-
Interest on deposits in other banks	309	787
Interest on Federal funds sold	116	187
Total interest income	<u>24,154</u>	<u>24,427</u>
Interest expense:		
Interest on deposits	9,744	11,619
Interest on other borrowed funds	661	196
Interest on subordinated capital note	4	8
Total interest expense	<u>10,409</u>	<u>11,823</u>
Net interest income	13,745	12,604
Provision for loan losses	600	600
Net interest income after provision for loan losses	<u>13,145</u>	<u>12,004</u>
Other operating income:		
Service charges on deposit accounts	490	394
Other service charges and fees	1,082	979
Partnership income	294	265
Fees on foreign exchange	202	161
Investment securities gains	21	-
Other	178	268
Total other operating income	<u>2,267</u>	<u>2,067</u>
Other operating expense:		
Salaries and employee benefits	5,179	4,830
Net occupancy	1,191	1,103
Equipment	500	438
Other	2,905	2,747
Total other operating expense	<u>9,775</u>	<u>9,118</u>
Income before income tax expense	5,637	4,953
Income tax expense	2,142	1,829
Net income	<u>\$ 3,495</u>	<u>\$ 3,124</u>
Per common share:		
Net income	<u>\$ 0.67</u>	<u>\$ 0.62</u>
Cash dividends declared	<u>\$ 0.20</u>	<u>\$ 0.16</u>
Weighted average shares outstanding (in thousands)	<u>5,188</u>	<u>5,021</u>

See accompanying notes to consolidated financial statements.

CPB INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net income	\$ 3,495	\$ 3,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	600
Provision for depreciation and amortization	498	391
Amortization of investment securities discounts	(61)	(80)
Net deferred loan origination fees	(43)	(34)
Net gain on sale of loans	(100)	(212)
Net gain on investment securities called	(21)	-
Federal Home Loan Bank stock dividends	(120)	-
Amortization of core deposit premium	23	-
Increase (decrease) in deferred income taxes	(1,222)	394
Partnership income	(293)	(265)
(Increase) decrease in accrued interest receivable and other assets	(3,914)	723
Increase (decrease) in accrued interest payable and other liabilities	277	(37)
Net cash provided by (used in) operating activities	<u>(881)</u>	<u>4,604</u>
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities	11,245	17,802
Purchases of investment securities	(20,867)	-
Net increase in interest-bearing deposits in other banks	(2,305)	(92)
Net loan originations over principal repayments	(30,571)	(31,480)
Proceeds from sale of loans	4,660	10,363
Purchases of premises and equipment	(115)	(7,288)
Net cash used in investment activities	<u>(37,953)</u>	<u>(10,695)</u>
Cash flows from financing activities:		
Net increase in deposits	42,325	37,530
Net increase (decrease) in other borrowings	17,526	(845)
Cash dividends paid	(933)	(804)
Proceeds from sale of common stock	24	20
Net cash provided by financing activities	<u>58,942</u>	<u>35,901</u>
Net increase in cash and cash equivalents	20,108	29,810
Cash and cash equivalents:		
At beginning of period	69,398	61,367
At end of period	<u>\$ 89,506</u>	<u>\$ 91,177</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 10,880</u>	<u>\$ 11,709</u>
Cash paid during the period for income taxes	<u>\$ 1,000</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

CPB INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The financial information included herein is unaudited, except for the consolidated balance sheet at December 31, 1991. However, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of Management, necessary for a fair statement of results for the interim periods.

The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.